MULTIMEDIA ▉ UNIVERSITY

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC3624 – ADVANCED AUDITING
(All Sections / Groups)

27th October 2017
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages excluding cover page with 4 Questions only.

2. Answer all **FOUR** questions. Mark distribution for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

You are given five short scenarios that may affect the independence of auditors. You are required to comment on the different types of threat to independence and suggest one way to address/reduce the threat that you have identified respectively.

a) Jason & Co has been the auditors for Delancey Fabrics for the past ten years. They continue their service this year by accepting the engagement to audit the financial statements for Delancey Fabrics.

b) Last year, Mowie Bhd invited KJ Firm to assist them in setting up their internal control for their new financial systems and this project lasted for 10 months. This year, Mowie Bhd approached KJ Firm to audit its financial statements and the firm accepted the audit job and proceeded with the audit engagement.

c) Armada has been an audit client for the past six years and Jason & Co has provided audit, taxation and management consultancy advice during this time. The client has been satisfied with the services provided, although the taxation fee for the period to 31 December 2016 remains unpaid.

d) Michelle has been employed as a senior auditor in KLM audit firm. During her first few months of employment, she observed that it is common for KLM staff (including audit partners) to attend their clients' company celebrations such as birthday events, family day and in some cases farewell parties.

e) Jeremy joined KLM audit firm as a new senior audit manager. During his first audit assignment, he realised that the new client given to him is the company his father is working as the Chief Finance Officer (CFO).

(Total: 25 marks)

QUESTION 2

a) ISA 320 defines materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Auditors are concerned with materiality because they want to ensure the financial statements prepared by the client's management are not materially misstated. Elaborate TWO (2) other reasons why materiality is important to auditors.

(6 marks)

b) The preliminary judgement about materiality is usually documented at the early stage of the audit while developing the overall strategy of the audit. Elaborate TWO (2) factors that affect the auditors' preliminary judgement about materiality.

(4 marks)

Continued...

c) ISA 610 stipulates the extent of the internal auditors' work that can be used by the external auditors. Elaborate THREE (3) aspects that external auditors need to evaluate for them to be able to rely on the output provided by the internal auditors.

(9 marks)

d) Naruto has been the partner of Cemerlang & Co ever since the establishment of the firm. Since he had completed the latest audit for a confectionary company, in the last two weeks, he is now looking for another audit assignment. A new request came in from a prospective client. Upon looking at the portfolio of the new client (Meow Meow Bhd), he is contemplating whether he should or should not take this new audit. Meow Meow Bhd is a pet store chain, which specializes in breeding pure breed exotic cats. The client is also heavily involved with import/export of these cats. Apart from providing services such as pet hotel and grooming, the business also provides veterinary service to its customers.

If you are in Naruto's position, what would be your decision? Elaborate your decision.

(6 marks)

(Total: 25 marks)

QUESTION 3

a) Darwish has been the accountant for Darco Bhd for almost 6 years. He is in the process of preparing the financial statements for the year-ended 30 September 2016. The financial statements are expected to be approved in the Annual General Meeting (AGM), on the 30th November 2016. Assuming that today's date is 22nd November 2016 and Darwish was made aware of these following matters:

Event One :
On 18th October 2016, a material fraud was discovered by the bookkeeper. The receivable ledger staff had been diverting funds into a fictitious customer bank account, and this has been ongoing for the past 8 months. The employee was immediately terminated from employment.

Event Two :
On 1st September 2016, one of the major customers lodged legal proceedings against Darco Bhd due to a breach of contract. On 15th September 2016, the company's legal advisors informed the director that it was very unlikely the company will lose the case. Therefore, no provision was made in the financial statements, but rather a disclosure in the footnotes was made as a contingent liability. On 20th October 2016, the judge ruled that Darco Bhd is liable on a technicality and is now required to pay a material amount of damages.

Continued...

For each of the two events above, you are required to:

    i.   Explain whether the events are adjusting or non-adjusting according to IAS 10 *Events After the Reporting Period.*

<div align="right">(4 Marks)</div>

    ii.   Explain the auditors' responsibility and the audit procedures/actions that should be carried out according to ISA 560 *(Redrafted) Subsequent Events.*

<div align="right">(12 Marks)</div>

b) Alicia, an unemployed accounting clerk, lives near Manjung Manufacturing Company. During her usual morning walk, she noticed some accounting software manuals in the dumpsters and the documentation was dated 2 months back, so she thought the information must be fairly current. Over the next few weeks, Alicia continued to collect all types of manual and eventually, she found manuals about critical inventory reorder formula, the billing system, the sales order system, the payables system and the operating system. To gain access to the company, she took a low profile position as a cleaning woman, which gives her access to all areas in the building.

While working, Alicia snooped through offices and managed to guess passwords through her observation. She ultimately printed out lists of user IDs and passwords, thus obtaining all the necessary passwords to set herself up as a supplier, customer and systems operator. Eventually, she managed to embezzle, on average, RM125,000 a month. Her acts were caught after the CEO saw her driving a Jaguar and close monitoring over a few months.

Required :

    i.   Identify THREE (3) weaknesses in the organisation's control structure that allow this type of embezzlement.

<div align="right">(3 Marks)</div>

    ii.   Discuss THREE (3) control techniques/procedures that could have helped to prevent this fraud.

<div align="right">(6 Marks)</div>

<div align="right">**(Total: 25 marks)**</div>

<div align="right">**Continued...**</div>

QUESTION 4

a) In carrying out financial statements audit, a team of auditors sometimes have to refer to other experts and consultants particularly in understanding the business environment of their client.

Elaborate THREE (3) factors that auditors need to consider according to ISA 620 *Using the Work of Auditor's Expert*, before they can appoint an expert to assist the audit work.

(10 marks)

b) During the accumulation of final evidence, auditing standards require the auditor to obtain a letter of representation that documents management's most important oral representations made during the audit.

Elaborate the THREE (3) purposes of this management representation letter.

(10 marks)

c) The analytical procedure is a powerful tool used by the auditors to gather audit evidence.

Explain the reasons why auditors compare client data with the following:

i. Industry data, and
ii. Similar prior-period data

(5 Marks)

(Total 25 marks)

End of Page